Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
800 Data Base Access Tariffs	)	CC Docket No. 93-129

THE SOUTHERN NEW ENGLAND TELEPHONE COMPANY
DIRECT CASE IN RESPONSE TO ISSUES DESIGNATED FOR INVESTIGATION

Pursuant to the Federal Communications Commission's ("Commission's") Order,[1] The Southern New England Telephone Company ("SNET") hereby submits its direct case in response to the issues designated for investigation.

A. TERMS AND CONDITIONS

Issue 1: The degree of clarity with which the LEC 800 database tariffs describe the services offered.

In its Order, the Commission requests comments on whether terms and conditions which appear in the 800 data base tariffs are consistent with the Communications Act and with the Commission's orders in Docket No. 86-10.

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[1] In the Matter of 800 Data Base Access Tariffs and the 800 Service Management System Tariff, Order Designating Issues For Investigation, DA 93-930, CC Docket No. 93-129, released July 19, 1993 ("Order").

SNET Response:

As outlined in its Rebuttal,[2] SNET has previously addressed issues raised by commenting parties. The service description provided in SNET's tariff fully complies with the Commission's rules and has already been revised to clarify terms and conditions raised by these parties.

For example, the Order states that "petitioners argue that some LECs fail to state clearly that basic 800 query service includes area of service routing at the LATA level."[3] On July 6, 1993,[4] SNET filed revised tariff pages to include language indicating that the basic query includes area of service at the LATA level (see Attachment A which includes tariff page 6-7.3).

Petitioners also claimed "that LECs do not clearly describe when a LEC may charge for a query when the associated call is not delivered to the IXC."[5] SNET's tariff complies with the Commission's Second Report and Order[6] that allows local exchange carriers ("LECs") to charge interexchange carriers ("ICs") for completed queries even if the LEC never actually delivers the associated call

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2 In the Matter of The Southern New England Telephone Company Tariff F.C.C. No. 39, The Southern New England Telephone Company Rebuttal To Comments, filed on March 29, 1993 ("Rebuttal").

3 Order, para. 6.

4 SNET Transmittal No. 571 filed on July 6, 1993 and effective on August 20, 1993.

5 Order, para. 6.

6 In the Matter of Provision of Access for 800 Service, CC Docket No. 86-10, Second Report and Order, released January 29, 1993 ("Second Report and Order").

to the IC. In the spirit of recovering costs from the cost causer, SNET included, in Section 6.2.4(A) of its tariff, language stating that identified ICs should pay for the query, if SNET incurs the cost of a completed query. As stated by SNET in its Rebuttal, that cost should not be borne by the LEC, nor built into the demand base and recovered from all 800 data base users.

SNET believes its tariff is also clear concerning petitioners' concerns about marketing vertical features to end users. In its Rebuttal, SNET references tariff language that clearly states that these vertical features are provided so that "the [access] customer can customize the 800 Database Access Service to meet its end users individual requirements."[7] SNET does not market these features to end users.

Subissue: Should the LECs include RESPORG services in their 800 data base tariffs?

SNET Response:

SNET's tariff includes RESPORG services in its 800 data base tariff. SNET has included this service as part of its 800 Database product line for those carriers that request SNET to act as RESPORG for its customers. SNET believes that it is appropriate to offer these services under tariff; however, should the Commission decide that these services

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[7] The Southern New England Telephone Company Tariff F.C.C. No. 39, page 6-52.2.

are more appropriately offered on a contract basis, SNET will comply and remove them from its tariff.

B. 800 DATA BASE QUERY TARIFFS-PRICE CAP CARRIERS

Issue 2: The reasonableness of the methods used by the price cap LECs to restructure their traffic-sensitive baskets, while adjusting for exogenous costs.

The Commission requests the LECs to comment on the methods for restructuring the traffic-sensitive basket (including if one is preferable over another); the effect of each method on pricing flexibility; whether the method complies with price cap rules and whether any of the methods require a price cap rule waiver.

SNET Response:

SNET generally employed Method 2 in its 800 data base tariff filing. As described in SNET's description and justification ("D&J") which accompanied SNET's tariff filing to restructure 800 service, SNET first removed $284,289 in base period revenues associated with SNET's interim 800 rate elements that were are no longer relevant. Next, SNET increased its price cap index ("PCI") to reflect the new exogenous changes associated with the provision of 800 data base service. In addition, the service band index ("SBI") upper and lower limits for each of the existing categories

were adjusted to reflect the change in the PCI. Both upper and lower band limits were raised while SBIs in each category remained unchanged. As a result, SNET's rates are much closer to the new lower band limits, especially in the Transport category, but all existing SBIs remain within the new limits.

The 800 data base category SBI was then initialized at 100 with upper and lower limits set at 106.8091 and 96.6368, respectively.[8]

SNET believes that Method 2 is most appropriate since it complies with all price cap rule requirements, as well as the 800 data base Order. Further, this method appears to be the most straight-forward and least complex approach of the three methods.

SNET chose to initialize the new 800 SBI at a value of 100, although SNET agrees that whether the API is initialized at 100 or at the API value, the result is "purely a formal indexing issue"[9] with no effect on the rates charged. SNET took note of the Commission's Part 61.47 rules which require that "new service requires the creation of a new service category" and that "the new SBI should be initialized at a value of 100." SNET, therefore, initialized the new 800 service category at 100.

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[8] The upper and lower band formula is calculated pursuant to Part 61.47 (d) of the Commission's Rules which require that each band limit the pricing flexibility of the service category as an annual increase or decrease of 5% relative to the percentage change in the PCI, measured from the levels in effect on the last day of the preceding tariff year.

[9] Order, footnote 16.

SNET Response Regarding The Three Methods.

In general, all three of the approaches are reasonable and should be found acceptable to the Commission, absent any rules to handle the hybrid new service/restructure situation created by the Commission in its 800 Order. As the Commission did not direct the use of a particular methodology in its 800 Order. SNET, like other LECs, chose a method that provides a reasonable result and that appears to be consistent with the price cap rules. SNET believes that any of the three methods can be used and that the Commission should not, at this point in the proceeding, impose new rules with retroactive effect.

SNET believes Method 1 is less appropriate than Method 2 as the best method since there is no downward SBI adjustment at the time of the restructure reflecting interim rate reduction. SNET believes that Method 3 is inappropriate since it is incorrect to change the PCI without a corresponding increase or decrease in the upper and lower band limitations. Without such an adjustment, any mid-year exogenous cost change would result in a violation of the band limits. This could inappropriately limit LEC pricing flexibility.

SNET believes that Method 2 is in complete compliance with all price cap rules and regulations. The increase in the upper and lower band limits is not the result of a unique rule interpretation, but the result of complying with

the rules. It is the expected result of positive exogenous changes ordered by the Commission. In its tariff filing, SNET has not "taken advantage" of any so-called "pricing flexibility" created by the revised band limits. In fact, SNET regards the increase in the band limits associated with this method as one of its disadvantages because the adjustment causes SNET's local transport SBI to come very close to being below the new lower band limit. If the SBI was any lower, SNET would have been required to file an undesired increase in its transport rates or seek a waiver for a below-band filing.

The Commission should note that the SBI upper and lower bound formulas used in the Commission's tariff review plan ("TRP") are identical to those used in SNET's price cap model. As shown below, a change in the proposed PCI will cause the SBI limits to change:

$$SBI_{(t)} = SBI_{(\text{end of year } 6/30)} \text{ times } \frac{PCI_{(\text{proposed})}}{PCI_{(\text{end of year})}} \text{ times } .95 \text{ or } 1.05.$$

Issue 3: The reasonableness of the price cap LECs' 800 data base rates.

Subissue: Are the exogenous costs claimed by the price cap LECs reasonable?

In its Order the Commission states that the LECs may further comment on including overheads in the calculation of exogenous costs. SNET contends that the inclusion of

overhead costs is appropriate and to do otherwise would be contrary to Commission's price cap rules and the Commission's past practices. Overhead costs represent real costs not specifically accounted for in the incremental cost amounts.

In its Rebuttal, SNET provided significant detail on the development of its overhead loading factor. This factor was based upon 1991 ARMIS data and includes maintenance support, plant non-specific expense, customer operations and General Support Facility costs. These expenses are an integral part of the provisioning of 800 data base and therefore are properly included. As discussed in SNET's Rebuttal, these expenses represent a wide variety of engineering and staff support costs that were necessary and vital to the implementation of 800 data base service. These overheads represent costs that were actually incurred by SNET. Since they are directly attributable to 800 data base and are clearly reasonable, they should be allowed by the Commission.

Throughout the history of price caps, the Commission has accepted the inclusion of overheads when defining exogenous costs. In prior price cap tariff filings, exogenous costs attributable to regulatory rules and orders (e.g., SPF, DEM and RDA) have always included overheads in addition to direct costs.

The Commission also requests comments on whether the other exogenous costs claimed by the LECs are reasonable.

SNET Response:

To develop the exogenous costs related to 800 data base, SNET identified the new incremental costs specific to the implementation and operation of 800 data base (see Workpaper COS-1 attached as Exhibit B). These costs would not have been incurred for the use of any other service and are specific to 800 Database. SNET maintains that these costs are justifiable and reasonable.

SNET included as exogenous costs those expenses which are 1)800-specific SCP capital-related expenses, 2)the start-up expenses and 3)ongoing annual expenses. These expenses are specific to the implementation or operation of basic 800 data base Service and would not have been incurred if the service was not offered.

Aside from the Commission-identified SCP and SMS type costs specific to 800 data base, SNET included expenses associated with the initial 800 data base record download and verification, as well as costs associated with SNET's Carrier Access Billing System ("CABS") modifications specific to billing the 800 Database query. SNET also included ongoing expenses related to maintaining to the SCP and STP that are specifically attributable to the provision of 800 data base. This maintenance expense (less than 2% of the total exogenous amount) represents a network technician's time spent updating the STP 800 global title translation table. These expenses are all specific to the

provision of 800 data base, and would not be incurred if 800 data base was not provided.

SNET's exogenous costs do not include SS7 infrastructure costs, or SS7-related investment components such as tandem upgrades for SSP functionality or STPs. Nor did SNET include any costs that might be associated with other services that use the same network components. SNET, in identifying its exogenous costs, identified only those costs specific to 800 data base. The exogenous portion of the capital costs for the SCP upgrade component represents only the 800 data base specific component. This upgrade was essential to 800 data base. It provided additional SCP processors to increase system performance and throughput. No other service utilizing the SCP was impacted by this upgrade. The costs associated with the CABS billing system were for modifications to bill the 800 data base query. No billing modifications were made for other services. The ongoing expenses included as exogenous are related to specific work activities that are not performed for other services nor shared by other services.

The Commission discusses the use of the Common Channel Signaling Cost Information System ("CCSCIS") to apportion common costs to 800 data base service. In developing the costs for its basic 800 query, SNET did not use the CCSCIS model. This model, if used for the development of the basic 800 query would have identified shared costs that would not qualify for exogenous treatment (SS7, SSP and STP related

costs). SNET, more appropriately developed 800-specific costs by identifying the activities necessary to implement and operate an 800 data base system.

SNET did utilize the CCSCIS model for the development of the vertical features queries. The model did not, however, allocate additional capital related costs to the vertical features.

Subissue: Have the LECs used reasonable rate making methodologies in developing their basic query rates?

SNET Response:

SNET believes its rate making methodology for the basic query rate is appropriate and justified. The methodology used is straight forward and fully complies with the Commission's price cap rules. As discussed in SNET's tariff filing and Rebuttal, SNET first identified all revenues associated with the then current 800 NXX offering (i.e., base period revenues). SNET then added the exogenous costs to the Interim 800 NXX base period revenue.

Next, the anticipated demand for nonrecurring charges was identified and the related nonrecurring revenues were removed from this revenue base. The net amount, the recurring revenue base, became the basis for the development of the recurring 800 data base query.

This rate was developed as following:

Interim 800 NXX base period revenue	$ 284,289
Plus: Exogenous Costs	1,089,562
Revenue Base	$1,373,851
Less: Nonrecurring Revenues	200
Recurring Revenue Base	$1,373,651

The initial basic 800 data base rate was then calculated by dividing the recurring revenue base ($1,373,651) by the base period demand (315,602,000). The result is a per query rate of $0.0044.

Subissue: Have the LECs used reasonable rate making methodologies in developing their vertical features rates?

SNET Response:

Although SNET's vertical feature services query charge was not specifically commented upon by any petitioner, SNET will reiterate its rate making methodology as requested by the Commission in its Order.

The purpose of the recurring cost development process is to identify the direct costs for providing the vertical features. The direct unit costs appropriately reflect only those costs which are directly attributable to these vertical features. The direct unit costs reflect 1993 cost levels.

To develop the vertical services query charges, SNET used an incremental or "bottom up" methodology. In an

incremental study, the costs are determined by adding together all the necessary equipment and/or labor and expenses associated with providing the service on a forward looking basis. This methodology is consistent with the requirements for new service offerings.

SNET used the CCSCIS model to determine the direct unit investments. This model identified no additional capital related costs associated with a query that had vertical features. However, SNET did identify certain start-up expenses associated with updating the CABS billing system for billing 800 data base vertical features.

As discussed in detail in its tariff filing, SNET anticipates demand for vertical features to be minimal. Any demand generated will be by smaller ICs that do not currently operate their own SCP/800 data base. These customers represent a small fraction of the 800 data base market.

Attachment C includes SNET's Workpapers COS-3 and COS-4 which provide the direct cost analysis underlying the rates for vertical features. As shown, the total additional operating expense specific to the vertical features was divided by demand to develop the expense per query.

The direct cost became the price floor for each recurring rate element. Overhead loadings were included to calculate an upper limit. The rates are priced above direct cost, but below the calculated upper limit. This methodology is in accordance with price cap guidelines.

Attachment D includes SNET's Workpapers COS-6 and RTE-1 show the development of the overhead loadings and its application to direct costs to develop the rate.

Appendix A

I. Unit Cost and Investment Information

For each function, LECs must provide unit gross investment in each of the respective Part 32 accounts. On the same basis, LECs must provide unit costs for: Depreciation, Net Return, Federal Income Tax, State and Local Income Tax, Maintenance, Administration, Other Tax, Other Direct Expense, Total Overhead Loadings and Total Expense.

SNET Response

Attachment E provides unit gross investment and unit costs.

II. Jurisdictional Separations

For each function, and for each Part 32 account identified, LECs must provide gross investment subject to separations, and the amount apportioned or assigned to state 800 data base, state other, interstate 800 data base and interstate other. State the method used to assign that investment to interstate 800 data base.

SNET Response

The method used to assign the 800 data base investment was "direct assignment." The only investment that SNET included in its exogenous costs was the cost to purchase additional SCP processors to handle additional interstate queries. Since this expense was specific to interstate 800

data base service, SNET did not allocate those costs to any other jurisdiction or function.

III. Demand

LECs must provide base period demand used in the restructure calculations, the demand level used in cost estimates, the time period used in demand estimates.

SNET Response

As provided by SNET in its tariff filing and in accordance with price cap rules for restructure services, base period demand (representing 1992) for the basic 800 data base query is 315,602,000. In order to identify the base period demand, it was necessary to identify the volume of originating 800 messages for ICs. This information was derived from historical CABS data. The data represented interstate 800 messages for ICs providing 800 service in SNET's operating territory. Since the query structure did not exist during the base period, the message count was converted to a query count. SNET did not use a discount rate to levelize demand.

The demand for vertical features, however, was developed on a prospective basis in accordance with new service methodology. The time period used for Year 1 was May 1993 through December 1993 and for Year 2, calendar year 1994.

IV. Other

1. If a discount rate is used in your demand calculations, explain the rationale for using this rate.

SNET Response

SNET did not use a discount rate in the 800 data base query demand calculation.

2. If you based your demand growth assumptions completely on past performance, explain why the introduction of 800 data base service will have no effect on the growth rate for 800 query demand for your company.

SNET Response

While SNET believes 800 Service is a growth service and historical data verifies this assumption, SNET does not believe the introduction of the data base service will have a strong impact on this growth. Number portability due to 800 data base may redistribute the market shares among the carriers, but growth related to 800 Service will not be related to the introduction of 800 data base.

3. Explain how the demand assumptions were used in your ratemaking methodology.

SNET Response:

See above discussions related to rate making methodology.

4. Provide the annual costs for all expenses related to the SMS/800 incurred pursuant to contracts with Bellcore, Data Services Management, Inc., or any other entity. Provide the terms of the contract and an explanation of how the annualized amount is calculated.

SNET Response:

SNET's annual cost for expenses related to SMS/800 pursuant to SNET's contract with Bellcore ($160,500 total company) was developed by using 1992 historical amounts. The actual bill will be based on actual fully loaded costs incurred during the month being billed (See Attachment F which includes a copy of Agreement, Attachment 4, "Schedule of Charges).

5. Provide the cost detail, by account, associated with upgrading the SSPs for 800 database service and justify why those upgrades should be treated as exogenous costs.

SNET Response

Not applicable. SNET did not include SSP costs for exogenous treatment.

6. If overhead costs were included as exogenous costs in your initial filing, justify why those costs should be treated as exogenous costs.

SNET Response:

See above discussion on overhead loadings.

7. If signaling link costs between local STPs and regional STPs are included as exogenous costs, justify why those costs should be treated as exogenous costs.

SNET Response

Not applicable. SNET does not have local STPs, only a regional pair.

8. If costs for regional or local STPs are included as exogenous costs, justify why those costs should be treated as exogenous costs.

SNET Response:

The only cost that SNET included related to the STPs was an on-going annual expense of $3,758. No investment was included in the STP cost. This expense was based on an engineering study, that identified the need for a Network Technician-Electronic to spend two hours per week on the STP 800 global title translation table. Since this work effort is a joint expense to both interstate and state 800 services, the $3,758 represents the interstate portion only. This amount was derived by direct assignment based on query demand.

9. For each of your company's SCPs, list and describe each service that is supported by that SCP (i.e., 800 data base, LIDB, virtual private networks, wide area Centrex or unrelated administrative functions). Provide a diagram of the equipment in an SCP installation typical for your company.

SNET Response:

SNET's SCPs support two services, 800 data base and LIDB Validation Service. Attachment G provides a diagram.

10. If costs for the SCP are allocated among the functions described above, explain your allocation procedures and provide your allocation factors and how these factors were derived.

SNET Response

The SCP costs included in SNET's exogenous costs are specific to the provision of 800 data base. The $500,000 exogenous investment was the cost to purchase additional SCP processors to enable the system to handle additional interstate queries and to improve system performance. It was not necessary to allocate any of the SCP costs among other functions since these costs were specifically included for 800 data base.

Respectfully submitted,

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The Southern New England
Telephone Company

TARIFF F.C.C. NO. 39
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Cancels 1st Revised Page 6-7.3

ACCESS SERVICE

6.1 Switched Access Service Description (Cont'd)

6.1.2 Switched Access Service Arrangements (Cont'd)

B. Trunk Side Arrangements (Cont'd)

(4) 800 Database Access Service (T)

800 Database Access Service is an originating only offering available to all customers of Switched Access Service trunk side arrangements. 800 Database Access Service identifies the customer, and provides subsequent delivery of identified calls to the customer, based on the ten-digit screening and optional translation of dialed 1-800-NXX-XXXX numbers.

Unless prohibited by technical limitations (e.g., different dialing plans), a customer may elect to have 800 Database Access traffic combined in the same trunk group arrangement with non-800 Database Access Service traffic. When required by technical limitations, or at the request of the customer, a separate trunk group will be established for 800 Database Access Service.

800 Database Access Service is arranged for originating calling only.

Whether 800 Database Access Service traffic is combined in the same trunk group arrangement with other traffic or in separate trunk groups, usage will always be billed separately.

When a 1-800-NXX-XXXX call is originated by an end user, the Telephone Company will perform the customer identification function based on the dialed digits to determine the customer location to which the call is to be routed. 800 calls may be routed to different customers based on the LATA in which the call originated. (T) (T)

800 Database Access Service may be delivered to the customer directly from an end office only when the end office is equipped with 800 Database query functionality, i.e., the ability to query the 800 Database to perform ten-digit customer identification and other optional functions associated with 800 Database Access Service as described following and in 6.2.4 (B). Where the end office is not equipped with 800 Database query functionality, the query will be launched via the access tandem SSP, and the call will be routed to the customer via the access tandem. Traffic from an 800 Access Tandem may not be forwarded to more than one Point of Presence.

800 Database Exogenous Cost Development

1. Capital–related expenses

SCP Software upgrade	$500,000		
Capital costs associated with upgrade:			
Depreciation	$26,114		
Taxes	33,891		
Cost of Money	50,531		
Total annual expense			$ 110,536

2. Start–up expense, amortized over five years

INOC–load database	$ 2,168			
DSAC–record verification	9,505			
Billing system updates:				
Information Technology Center	340,364			
Comptrollers	26,013			
ICSC	95,052			
Total	$473,102	* .2729	= $ 129,110	(1)

3. Ongoing annual expense

SCP, STP maintenance	$ 11,274	
SMS–NASC expense	284,614	
SMS–Bellcore expense	141,283	
SMS–link expense	69,407	
Total		$ 506,578

4. Total annual expense (line 1 + line 2 + line 3)	$ 746,224
5. Loading factor (Source: COS–6)	1.4601
6. Total exogenous expense (line 4 * line 5)	$1,089,562

(1) Annuity from a present amount for 5 years @ 11.34% COM = .2729

Direct Cost Analysis – 800 to POTS Number Translation

Line		Source	Present Value	Year 1	Year 2	Year 3
	Total Direct Investment					
1	Annual		$0	$0	$0	$0
2	Gross		$0	$0	$0	$0
3	Demand (queries)	Demand Forecast	64,405,830	17,236,000	29,608,000	34,563,000
4	Levelized Direct Investment Per Query	Line 2 ÷ Line 3	$0.00000			
5	Total Operating Expenses	Operating Depts.	$51,552	$57,398	$0	$0
	Depreciation			$0	$0	$0
	Maintenance			$0	$0	$0
	Expenses - Recurring			$0	$0	$0
	Expenses - Non Recurring			$0	$0	$0
	Expenses - Fixed			$57,398	$0	$0
	Tax Requirements			$0	$0	$0
	Cost of Money			$0	$0	$0
6	Levelized Operating Expenses Per Query	Line 5 ÷ Line 3	$0.00080			

Direct Cost Analysis – Routing Options Capabilities

Line		Source	Present Value	Year 1	Year 2	Year 3
	Total Direct Investment					
1	Annual	MICRA Cash Flow	$5,566	$2,358	$2,580	$1,887
2	Gross	MICRA Cash Flow	$10,941	$2,358	$4,903	$6,719
3	Demand (queries)	Demand Forecast	20,261,029	4,366,000	9,080,000	12,443,000
4	Levelized Direct Investment Per Query	Line 2 ÷ Line 3	$0.00054			
5	Total Operating Expenses	MICRA Cash Flow	$17,901	$17,730	$1,148	$1,451
	Depreciation			$123	$256	$351
	Maintenance			$0	$0	$0
	Expenses - Recurring			$0	$0	$0
	Expenses - Non Recurring			$0	$0	$0
	Expenses - Fixed			$17,145	$0	$0
	Tax Requirements			$194	$365	$439
	Cost of Money			$267	$527	$661
6	Levelized Operating Expenses Per Query	Line 5 ÷ Line 3	$0.00088			

OVERHEAD LOADING FACTOR

LINE	DESCRIPTION	SOURCE	TOTAL TRAFFIC SENSITIVE (000)
1	Revenue Requirement @ 11.25% ROR	1991 ARMIS 43-01	152,543
2	COE - Switching	L640	214,666
3	COE - Transmission	L650	80,410
4	Cable and Wire	L660	30,282
5	Total Direct Investment	L2+L3+L4	325,358
6	FDC Factor	L1/L5	0.4688
7	Direct Annual Cost Factor	Note 1	0.3211
8	Overhead Loading Factor	L6/L7	1.4601

NOTE: The sum of Plant Specific, Plant Non-specific maintenance expense; depreciation; customer operations; return; and taxes from the 1991 ARMIS reports divided by Line 5, Total Direct Investment.